

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 04 PRETORIA 003298

SIPDIS

STATE PLEASE PASS USAID
STATE PLEASE PASS USGS

E.O. 12958: N/A
TAGS: [EPET](#) [ENRG](#) [ENV](#) [EIND](#) [ETRD](#) [ECON](#) [SF](#)
SUBJECT: SOUTH AFRICA: MINERALS AND ENERGY NEWSLETTER
"THE ASSAY" - ISSUE 7, JULY 2005

REF: A) PRETORIA 3049, B) PRETORIA 2998

THIS CABLE IS NOT FOR INTERNET DISTRIBUTION

[1](#)1. (U) Introduction: The purpose of this monthly newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, aluminosilicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

Key

[1](#)2. (U) Key to some of the terminology and abbreviations used is given to facilitate understanding.

BEE (Black Economic Empowerment) - the scheme whereby the South African Government promotes black participation in business.

- t = tons,
- t/d = tons per day,
- c/l = cents per liter,
- t/m = tons per month,
- t/y = tons per year,
- oz = troy ounces (31.1 grams),
- cmg = centimeter grams,
- mcf = million cubic feet,
- tcf = trillion cubic feet,
- R = SA currency (rand),
- MW = megawatts,
- kt = thousand tons,
- bbl/d = barrels per day,
- MW = megawatts,
- PGM = platinum group metals.

HOT ISSUES

First Regional Electricity Distributor Launched

[1](#)3. (U) On July 4 in Cape Town, newly appointed Minister of Minerals and Energy Lindiwe Hendricks launched the first of South Africa's proposed six regional electricity distributors (REDs). In order to meet President Mbeki's deadline of July 1 for the establishment of the first RED, the Cape Town Metro area was chosen as the nucleus for this RED - to be known as RED ONE. Over the next six to eighteen months negotiations and legal amendments will be required to persuade the other 39 municipalities in the region as well as Eskom to voluntarily join the new entity, to ringfence their electricity distribution assets and operations, and to transfer assets and staff to RED ONE. Although the other five REDs may require some unique manipulations, RED ONE will serve as the prototype. The President has stated that all the six REDs must be in place by February 2007, but legal, constitutional, commercial, and operational hurdles still must be resolved

NUCLEAR

SAFARI Reactor Conversion

[1](#)4. (U) In a July 19 news release, Minerals and Energy Minister Lindiwe Hendricks announced that the Safari-1 nuclear research reactor at Pelindaba outside Pretoria would, in line with international trends, phase out the use of highly enriched uranium (HEU) fuel - greater than

20% U-235 - in favor of low enriched uranium (LEU). She said that the state-owned Nuclear Energy Corporation (NECSA) would convert its research reactor fuel manufacturing plant over the next three years, and that this marked another milestone in government's program to ensure the safety of nuclear materials. The remaining HEU would be applied to the manufacture of diagnostic medical isotopes, mainly Molybdenum-99. SAFARI conversion ensures medical isotope production for a longer period, the Minister said.

ELECTRICITY

Eskom Signs Siemens and Re-opens Camden

15. (U) With the signing of a \$286 million contract with Siemens on July 22, Eskom is on course to carry out its mandate to provide new power generation capacity. Under the contract, Siemens will supply seven open cycle gas turbines for two new diesel powered stations to be built in the Western Cape Province for peak capacity. The two power stations will have a combined capacity of more than 1,000 MW and together cost about \$600 million to build. A 588 MW station will be built in Atlantis on the west coast and a 440 MW station will be built at Mossel Bay on the south coast. Siemens must design, manufacture, and commission the turbines by April 2007. This will help meet the projected increase of 2,500 MW in peaking capacity required by 2010. To meet the projected increase in base load demand, three mothballed coal-fired stations will be brought back into service at Camden, Grootvlei, and Komati. These plants have a combined capacity of 3,540 MW. Camden started operating commercially at the beginning of July for the first time in 15 years. The Managing Director of Eskom Enterprises Brian Dames said that these projects were all part of Eskom's \$3.3 billion capital expenditure program approved by the board last year.

16. (U) In an unrelated matter, Eskom has signed a two-year wage agreement with the National Union of Metalworkers (Numsa) for an annual pay increase of 6.5% for each year. This is above the current official inflation rate of about 3.9%.

COAL

Old King Coal

17. (U) Coal was South Africa's most valuable mineral mined in April, exceeding the value for both the gold and platinum group metals. The value of coal sales in April 2005 was \$412 million compared to \$387 million for gold and \$380 million for PGMs. For the period February 2005 to April 2005, year-on-year (y/y) coal sales have risen by 13.8%, while PGM sales have fallen by 4.0% and gold sales have plunged by 12.3%.

FUEL

Fuel Prices Continue to Break Records

18. (U) On August 3, the Department of Minerals and Energy (DME) again increased the retail price of gasoline in rand terms by 5.0% and the wholesale prices of diesel and kerosene by an average of 3.1% and 3.7%, respectively. This is on top of the July 6 increases of 5.7%, 10.5% and 8.9%, respectively. The benefit obtained from a slight strengthening of the rand was overshadowed by the increase in the price of crude oil, which was totally responsible for the latest price increases.

MINING

T'is the Season of Labor Discontent

19. (U) The season for wage negotiations in the mining, steel and electricity industries has kicked off with the usual extreme positions adopted by management and labor - management offering wage increases as low as 2.5%, and labor demanding as high as 20%. The Chamber of Mines, representing the gold and coal mining industries, has offered workers wage increases of 2.5% and 4%, respectively. This contrasts with the individual union demands - Solidarity's 12.3%, the National Union of Mineworkers' (NUM) 20%, and the United Association of South Africa's 12%. The gold mining industry during the last two negotiations agreed to wage increases of 8-10%, significantly above the then inflation rate of 5-6%. In

light of the poor income performance of gold, management is determined to hold to the inflation rate, currently running at about 3.9% as calculated by the South African Reserve Bank's CPIX index (consumer price inflation less interest costs).

110. (U) Negotiations for the gold mines appear to have reached an impasse and the unions have threatened to take some 100,000 workers out on strike as of August 7 if the mines do not up their offer. If this comes to pass it will be the first industry wide strike since 1987, which lasted for 21 days. The Chamber of Mines, representing a large chunk of South Africa's gold producers, has offered wage increases of 5% in categories 3 and 4, and 4.5% in the higher job categories, as well as a 0.5% increase in employers' provident fund contributions and a 10% increase in the employees' living out allowance. Mantashe says the NUM and other unions are demanding a 12% increase in wages.

111. (U) To counter the Reserve Bank's official inflation rate figure of 3.9%, Solidarity developed a "mine worker inflation index" estimated to be 5.7% for the year to May 2005. Solidarity economist Lullu Krugel said that the CPIX measure underestimated the inflation position for mine workers because the weighting was last adjusted in 2001. New weights for oil, steel and property prices were not factored in, and that while administered prices (water, electricity, transport, telephone, fuel) rose by 12.4% in 2004, they were underestimated.

112. (U) In the meantime, the National Union of Metalworkers (Numsa) and Solidarity went on a three-day pay strike at the Anglo American's subsidiary Highveld Steel and Vanadium on July 27. The union's demanded an 8% increase but settled for 6% on July 29. Highveld is the world's largest producer of vanadium products. The plant annually produces some 900,000 tons of steel, 4.4 million kg of Vanadium Pentoxide (V2O5) and 2.1 million kg of Ferrovandium. Additionally, the three major platinum producers (Anglo Platinum, Impala Platinum and Lonhro Platinum) have yet to settle with their unions.

113. (U) (Note: Update on the Gold Miner's Strike. On August 12, the gold miner strike came to an end. The strike lasted for four days compared to the 21 days in 1987, so that was a blessing for the industry and the economy - gold still accounts for about 10% of South Africa's export earnings. As negotiations go, neither side got what they wanted and in truth some political pressure may have been brought to bear on both sides for a quick, affordable and acceptable settlement. The agreement covers two years. For the first year the following will take effect:

- wage increase of 6% to 7% with the latter for the lowest earners;
- living-out allowance of R1,000/month to be phased in over the two years;
- 1% increase in the employer's contribution to the worker's Provident Fund;
- R10,000 funeral cover per miner.

For the second year the wage increase will equal the inflation rate plus 1%, with a minimum increase of 5% for higher paid workers and 5.5% for lower paid workers. No settlement has yet been achieved in either the platinum or coal sectors, but the gap has narrowed. End Note.)

----- ENVIRONMENT -----

South African Companies Target Kyoto Market -----

114. (U) Four Johannesburg Security Exchange (JSE)-listed companies stand to earn \$99 million under the Kyoto Protocol if their emission reduction projects are approved by the EU Commission. Under the Clean Development Mechanism South Africa can, on behalf of these industries, buy and sell Certified Emission Reductions (CERs) for greenhouse gases. The current price is about \$7 per ton of carbon dioxide equivalent (CDE). Anglo American's Highveld Steel & Vanadium propose to cut emissions by 12.4 mt per year to earn \$86.8 million. Mittal Steel proposes to cut 763,960 t through a waste-to-electricity project and earn \$5.3 million. African Explosives propose to cut gas emissions from nitric acid production by 260,000 t to earn \$1.8 million. Omnia Fertilizer proposes to cut annual nitric oxide emissions at its Sasolburg plant by 670,000 t to earn \$4.7 million. The income will be used to upgrade existing plants to meet emission requirements.

115. (U) According to Lwazikazi Tyani, the Minerals and Energy Director for the Clean Development Mechanism, the

governments of Japan, Britain, Germany, Denmark, Canada, and France have expressed interest in South African CERs. Andre de Nysschen, Highveld's Chief Executive said that the Clean Development Mechanism was attractive to steel makers as a means of making capital-intensive emission reduction projects more affordable. Graham Edwards, Managing Director of African Explosives, estimated that capital expenditures for his company would total \$800,000, but "we have the potential to earn \$1.9 million."

RENEWABLE ENERGY

A Darling Wind Farm in the Cape

16. (U) On July 13, Environmental Affairs Minister Marthinus van Schalkwyk dismissed the only appeal against his February approval of a \$10 million project to erect four Danish-designed wind turbines at Darling in the Western Cape Province. The proposed development entails the erection of four wind turbines with a total power capacity of about 5.2 MW, enough to supply the small town of Darling with electricity in summer when demand is fairly low and winds are constant. This will be the first wind power generating facility developed by a private company that feeds into the nation's power grid. Eskom, the power utility, is also developing an experimental wind farm at Klipheuwel in the Western Cape, well known for the strength and frequency of its winds. These developments are in line with the government's policy to diversify energy sources and for renewable energy to contribute 5% of total energy supply by 2012.
FRAZER